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October 20, 2000

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
360 James Robertson Parkway
Nashville, TN 37201


Re: Tariff Filings by all Telephone Companies Regarding Reclassification of
Pay Telephone Service as Required by FCC Order 96-439
Docket No. 97-00409

Dear Mr. Waddell:

Please accept for filing the original and thirteen copies of the Supplemental Rebuttal
Testimony of Don Wood filed on behalf of the Tennessee Payphone Owners Association in the
above-captioned proceeding. Copies have been provided to parties of record.

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By: 
Henry Walker

HW/nl
Enclosure

POSTED
10-21-00

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE TENNESSEE

Re: Tariff Filings by all Telephone)
Companies Regarding)
Reclassification of Pay Telephone) Docket No. 97-00409
Service as Required by FCC Order)
96-439)

SUPPLEMENTAL REBUTTAL TESTIMONY

OF

DON J. WOOD

ON BEHALF OF TENNESSEE PAYPHONE OWNERS ASSOCIATION

October 20, 2000

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Don J. Wood. My business address is 4625 Alexander Drive, Suite 125,
3 Alpharetta, Georgia 30022.

4
5 Q. ARE YOU THE SAME DON J. WOOD WHO PRESENTED DIRECT AND
6 REBUTTAL TESTIMONY ON BEHALF OF THE TPOA IN THIS PROCEEDING?

7 A. Yes.

8
9 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?

10 A. The purpose of my testimony is to describe and respond to the revised responses to
11 TPOA's Supplemental Data Requests provided by BellSouth Telecommunications, Inc.
12 ("BellSouth") on October 13, 2000 (one week after my rebuttal testimony was due to be
13 filed with the Authority). My testimony describes how the information provided by
14 BellSouth can be used to establish rates for payphone access services that comply with
15 the FCC's stated requirement that such rates be cost-based, non-discriminatory,
16 consistent with the objectives of section 276 of the Act, and in compliance with the
17 FCC's computer III tariffing guidelines.

18
19 Q. TO BE CLEAR, IS THE AUTHORITY REQUIRED TO APPLY THE FCC'S FOUR-
20 PART TEST IN THIS PROCEEDING?

21 A. Yes. The FCC's four-part test sets forth the standard that state regulators must apply

1 when reviewing the rates for ILEC-provided payphones services.¹ State regulators may,
2 of course, use their judgment regarding the level of costs associated with the payphone
3 service in question, so that a cost-based rate can be established.

4
5 Q. PLEASE DESCRIBE WHAT BELLSOUTH HAS PROVIDED IN ITS
6 SUPPLEMENTAL FILING.

¹ The FCC has stated repeatedly that the federal agency has jurisdiction over intrastate payphone rates pursuant to section 276 of the federal Telecom Act and that the agency has initially delegated that authority to state commissions. States are required to follow the FCC's guidelines in setting intrastate payphone rates and any state decision which departs from those guidelines is subject to FCC review. "States must apply these requirements . . . for tariffing such intrastate services." CC Docket 96-128, *Order on Reconsideration*, (rel. Nov. 8, 1996) paragraph 163. "The guidelines for state review of intrastate [payphone] tariffs are essentially the same as those included in the *Payphone Order* for federal tariffs The Orders on Reconsideration required that state tariffs for payphone services meet the requirements outlined above." CC Docket 96-128, Order DA 97-678 (Com. Car. Bur. rel. April 4, 1997), ("Bureau *Waiver Order*") paragraph 32. "Any party who believes that a particular LEC's intrastate tariffs fail to meet these requirements has the option of filing a complaint with the [Federal Communications] Commission. *Id.*, at footnote 93. "[T]he payphone services a LEC tariffs at the state level are subject to the new services test and the requisite cost support data must be submitted to the individual states." CC Docket 96-128, Order DA 97-805 (Com. Car. Bur. rel. April 15, 1997), paragraph 18. "[S]tates are required to review intrastate tariffs for payphone services consistent with federal guidelines." *Id.*, at paragraph 23. "The Commission retains jurisdiction under section 276 to ensure that all requirements of that statutory provision and the *Payphone Reclassification Proceeding*, including the intrastate tariffing of services, have been met." *Id.*, at footnote 60. "The Common Carrier Bureau has emphasized that the Commission retains jurisdiction under Section 276 to ensure that all requirements of section 276 and the Payphone Reclassification Proceeding are met." *In the Matter of Wisconsin Public Service Commission*, CCB Docket 00-1, DA 00-347 (Com. Car. Bur. rel. March 2, 2000) ("The Wisconsin Order"), paragraph 2. "The Commission stated it would initially rely on state commissions to ensure that the rates, terms, and conditions applicable to the provision of basic payphone lines comply with the requirements of section 276. *Id.* In order "to demonstrate compliance with the requirements of section 276 and the Commission's implementing rules," the Common Carrier Bureau directed the four largest LECs in Wisconsin to file documentation of the "direct costs" of payphone service "determined by the use of an appropriate forward-looking, economic cost methodology that is consistent with the principles the Commission set forth in the Local Competition First Report and Order." *Id.*, at paragraphs 5 and 9. "Overhead allocations must be based on cost [W]e expect incumbent LECs to explain any overhead allocations for their payphone services that represent a significant departure from overhead allocations approved for UNE services." *Id.*, at paragraph 11.

1 A. As I explained in my rebuttal testimony, BellSouth developed the cost of the elements of
2 PTAS and Smartline² service by utilizing the TELRIC Calculator. This model, which has
3 previously been presented to, and reviewed by, the Staff and Directors, calculates direct,
4 shared, and common costs on a forward-looking basis. Before running the model in order
5 to develop the costs presented in this proceeding, however, BellSouth disabled the
6 portion of the model that calculates what purports to be the forward-looking efficient
7 level shared and common (collectively “overhead”) costs. This action appears to have
8 been taken in order to support the stated BellSouth view that “there is no maximum
9 markup above direct costs applicable when developing cost based rates.”³

10 In its supplemental response, BellSouth provided the instructions for restoring the
11 shared and common cost capabilities to the TELRIC Calculator as filed with the
12 testimony of Ms. Caldwell on September 15, 2000. I have followed these instructions
13 and used the BellSouth model to calculate the total direct, shared and common (e.g. direct
14 plus reasonable overhead) costs for BellSouth’s PTAS service. When running the model
15 for this purpose, I made no other changes to the inputs or calculations.

16
17 Q. WHAT ARE THE RESULTS OF YOUR ANALYSIS?

² Because TPOA members purchase PTAS service, my analysis has focused on this service. The approach described in my testimony can and should be utilized to development cost-based rates for Smartline service.

³ The presentation of shared and common costs – produced by BellSouth’s own cost model and therefore presumably what BellSouth believes to be reasonable – would have directly contradicted such a view and put BellSouth’s cost witness in a indefensible position. It is apparently for this reason that BellSouth elected to remove certain capabilities

1 A. The results produced by the restored BellSouth cost model are as follows:⁴

PTAS Service	<u>Monthly Cost</u>
PTAS Loop	12.10
Non-traffic Sensitive PTAS Line Termination	1.74
Monthly Usage Cost	2.28
PTAS Central Office Blocking and Screening	0.18
Product Support	<u>0.33</u>
Total PTAS Monthly Cost	<u><u>16.63</u></u>

2

3 Q. WHAT DO THESE COSTS REPRESENT?

4 A. These costs represent the total costs (direct plus reasonable overhead) incurred by
5 BellSouth to provide PTAS service, and represent the maximum level for a rate⁵ that is
6 (1) properly characterized as cost-based, and (2) compliant with the FCC's new services
7 test. As I described in my rebuttal testimony, I believe that that the loop costs produced
8 by this method are overstated (because they include residence line characteristics), and
9 the product support costs are overstated (because they include costs associated with
10 activities that BellSouth is no longer performing). As a result, these costs are likely to be
11 overstated and should be considered conservatively high.

12

13 Q. IN ITS SUPPLEMENTAL RESPONSE, BELLSOUTH INCLUDES A DISCLAIMER

from its TELRIC Calculator and to report only direct costs.

⁴ The workpapers produced by the TELRIC Calculator that support these costs are attached as Exhibit DJW-.

⁵ For the reasons explained in my direct and rebuttal testimony, such a rate should be inclusive of the SLC and PICC, or alternatively the intrastate rate should be established at a level of the total cost minus these interstate charges (in

1 FOR COSTS CALCULATED UTILIZING THE RESTORED TELRIC
2 CALCULATOR. IS THIS DISCLAIMER ACCURATE OR NECESSARY?

3 A. No. BellSouth argues that the shared and common costs calculated by its model should
4 not be used, because they fail to include “retail” related costs. This should not be a
5 concern for two reasons. First, TPOA members are likely to cause costs similar to the
6 costs cased by CLECs: they both purchase services, in bulk, from a single-source
7 provider. Second, BellSouth has include, as a separate line item, all of the “product
8 management, sales support, and cost development” costs⁶ associated with PTAS. It is
9 difficult to imagine what other “retail” costs would need to be added. As a result, if
10 BellSouth were to develop a separate calculation of shared and common costs and also
11 add in the “product support” costs that it has developed, it would clearly be double
12 counting. The inclusion of the “product support” costs renders the “retail” cost concern
13 moot.

14 Second, BellSouth argues that the inclusion of shared and common costs
15 somehow transforms a TSLRIC study into a TELRIC study. This argument is difficult to
16 grasp, especially since the FCC – at the time it announced the TELRIC methodology,
17 described it as equivalent to TSLRIC.⁷ In fact, the two methodologies are identical; the
18 only difference is the cost object being studied (TSLRIC studies address services,

which case these interstate charges would be separately assessed, as they are today).

⁶ Direct Testimony of D. Daonne Caldwell, p. 8.

⁷ This argument is made even more elusive by the fact that BellSouth utilized its TELRIC Calculator (without

1 TELRIC studies address elements). Both calculate direct costs, to which a forward-
2 looking measure of shared and common (e.g. overhead) costs may or may not be added,
3 depending on the task at hand. When calculating a price floor, only direct costs would be
4 considered. When calculated rates for services or network elements that are cost-based, it
5 is necessary to add a forward-looking, efficient measure of shared and common costs.
6 There is nothing about the way that I have utilized the restored TELRIC Calculator that
7 violates these principles.

8
9 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL REBUTTAL TESTIMONY?

10 A. Yes.

modification to any of the cost algorithms) to calculate what it describes as TSLRIC costs.

Recurring Cost Summary

Tennessee
A.1.10 - 2-Wire Analog Voice Grade Loop - PTAS

10/14/00

	Volume Sensitive			Volume Insensitive		
	Direct Cost	Shared Cost	TELRIC	Direct Cost	Shared Cost	TELRIC
Recurring Cost Devel. Sheets Cols L, N, & O	\$9,6957	\$1,1573	\$10,8530			\$0,0000
Other Expenses						
Subscriber Line Testing	\$0,2061	\$0,0000	\$0,2061	\$0,0000	\$0,0000	\$0,0000
NTW - Total Monthly Cost Per Access Line	\$0,1301	\$0,0000	\$0,1301	\$0,0000	\$0,0000	\$0,0000
Network Computer Support Additive	\$0,2183	\$0,0000	\$0,2183	\$0,0000	\$0,0000	\$0,0000
Total Monthly Cost	\$10,2502	\$1,1573	\$11,4075	\$0,0000	\$0,0000	\$0,0000
Gross Receipts Tax Factor		X	1,0030		X	1,0030
Cost (including Gross Receipts Tax)			\$11,4420			\$0,0000
Common Cost Factor		X	1,0578		X	1,0578
Monthly Economic Cost			\$12,1038			\$0,0000

Total Monthly Economic Cost: \$12.1038

Recurring Cost Summary

Tennessee
S.1.1 - PTAS NTS Line Termination

10/14/00

	Volume Sensitive			Volume Insensitive		
	Direct Cost	Shared Cost	TELRIC	Direct Cost	Shared Cost	TELRIC
Recurring Cost Devel. Sheets Cols L, N, & O	\$1.4882	\$0.1530	\$1.6412	\$0.0000		\$0.0000
Total Monthly Cost	\$1.4882	\$0.1530	\$1.6412	\$0.0000		\$0.0000
Gross Receipts Tax Factor		X	1.0030		X	1.0030
Cost (including Gross Receipts Tax)			\$1.6462			\$0.0000
Common Cost Factor		X	1.0578		X	1.0578
Monthly Economic Cost			\$1.7414			\$0.0000

Total Monthly Economic Cost : \$1.7414

Recurring Cost Summary

Tennessee
S.1.2 - PTAS Central Office Blocking and Screening

10/14/00

	Volume Sensitive			Volume Insensitive		
	Direct Cost	Shared Cost	TELRIC	Direct Cost	Shared Cost	TELRIC
Recurring Cost Devel. Sheets Cols L, N, & O	\$0.0332	\$0.0034	\$0.0367			\$0.0000
Labor Expenses						
Switch & Trunk Based Translations	\$0.0000	\$0.0000	\$0.0000	\$0.0550	\$0.0000	\$0.0550
CO Install & Mice Field - Switch Eq	\$0.0000	\$0.0000	\$0.0000	\$0.0566	\$0.0000	\$0.0566
Recent Chng Line Trans (RCMAG)	\$0.0205	\$0.0000	\$0.0205	\$0.0000	\$0.0000	\$0.0000
Total Monthly Cost	\$0.0538	\$0.0034	\$0.0572	\$0.1116	\$0.0000	\$0.1116
Gross Receipts Tax Factor		X	1.0030		X	1.0030
Cost (including Gross Receipts Tax)			\$0.0573			\$0.1119
Common Cost Factor		X	1.0578		X	1.0578
Monthly Economic Cost			\$0.0607			\$0.1184

Total Monthly Economic Cost : \$0.1791

Recurring Cost Summary

Tennessee
S.1.3 - Product support

10/14/00

	Volume Sensitive			Volume Insensitive		
	Direct Cost	Shared Cost	TELRIC	Direct Cost	Shared Cost	TELRIC
<u>Labor Expenses</u>						
Product Support	\$0.0000	\$0.0000	\$0.0000	\$0.0825	\$0.0000	\$0.0825
Product Support	\$0.0000	\$0.0000	\$0.0000	\$0.1840	\$0.0000	\$0.1840
Product Support	\$0.0000	\$0.0000	\$0.0000	\$0.0334	\$0.0000	\$0.0334
Product Support	\$0.0000	\$0.0000	\$0.0000	\$0.0004	\$0.0000	\$0.0004
Product Support	\$0.0000	\$0.0000	\$0.0000	\$0.0078	\$0.0000	\$0.0078
Total Monthly Cost	\$0.0000	\$0.0000	\$0.0000	\$0.3082	\$0.0000	\$0.3082
Gross Receipts Tax Factor		X	\$0.0030		X	\$0.0030
Cost (including Gross Receipts Tax)			\$0.0000			\$0.3092
Common Cost Factor		X	1.0578		X	1.0578
Monthly Economic Cost			\$0.0000			\$0.3270

Total Monthly Economic Cost : \$0.3270

Recurring Cost Summary

Tennessee
C.1.1 - End Office Switching Function, Per MOU

10/14/00

	Volume Sensitive			Volume Insensitive		
	Direct Cost	Shared Cost	TELRIC	Direct Cost	Shared Cost	TELRIC
Recurring Cost Devel. Sheets Cols L, N, & O	\$0.0020068	\$0.0002206	\$0.0022274	\$0.0001390	\$0.0000000	\$0.0001390
Total Cost	\$0.0020068	\$0.0002206	\$0.0022274	\$0.0001390	\$0.0000000	\$0.0001390
Gross Receipts Tax Factor		X	1.0030		X	1.0030
Cost (including Gross Receipts Tax)			\$0.0022341			\$0.0001395
Common Cost Factor		X	1.0578		X	1.0578
Economic Cost			\$0.0023633			\$0.0001475
Total Economic Cost : \$0.0025109						

Recurring Cost Summary

Tennessee

C.1.2 - End Office Interoffice Trunk Port - Shared, Per MOU

10/14/00

	Volume Sensitive			Volume Insensitive		
	Direct Cost	Shared Cost	TELRIC	Direct Cost	Shared Cost	TELRIC
Recurring Cost Devel. Sheets Cols L, N, & O	\$0.0003093	\$0.0000340	\$0.0003433	\$0.0000214	\$0.0000000	\$0.0000214
Total Cost	\$0.0003093	\$0.0000340	\$0.0003433	\$0.0000214	\$0.0000000	\$0.0000214
Gross Receipts Tax Factor		X	1.0030		X	1.0030
Cost (Including Gross Receipts Tax)			\$0.0003443			\$0.0000215
Common Cost Factor		X	1.0578		X	1.0578
Economic Cost			\$0.0003642			\$0.0000227
Total Economic Cost : \$0.0003870						

Recurring Cost Summary

Tennessee
C.2.1 - Tandem Switching Function Per MOU

10/14/00

	Volume Sensitive			Volume Insensitive		
	Direct Cost	Shared Cost	TELRIC	Direct Cost	Shared Cost	TELRIC
Recurring Cost Devel. Sheets Cols L, N, & O	\$0.0000057	\$0.0000006	\$0.0000063	\$0.0000004	\$0.0000000	\$0.0000004
Total Cost	\$0.0000057	\$0.0000006	\$0.0000063	\$0.0000004	\$0.0000000	\$0.0000004
Gross Receipts Tax Factor		X	1.0030		X	1.0030
Cost (including Gross Receipts Tax)			\$0.0000063			\$0.0000004
Common Cost Factor		X	1.0578		X	1.0578
Economic Cost			\$0.0000067			\$0.0000004
Total Economic Cost : \$0.0000071						

Recurring Cost Summary

Tennessee
C.2.2 - Tandem Interoffice Trunk Port - Shared, Per MOU

10/14/00

	Volume Sensitive			Volume Insensitive		
	Direct Cost	Shared Cost	TELRIC	Direct Cost	Shared Cost	TELRIC
Recurring Cost Devel. Sheets Cols L, N, & O	\$0.0000357	\$0.0000039	\$0.0000396	\$0.0000025	\$0.0000000	\$0.0000025
Total Cost	\$0.0000357	\$0.0000039	\$0.0000396	\$0.0000025	\$0.0000000	\$0.0000025
Gross Receipts Tax Factor		X	1.0030		X	1.0030
Cost (including Gross Receipts Tax)			\$0.0000398			\$0.0000025
Common Cost Factor		X	1.0578		X	1.0578
Economic Cost			\$0.0000421			\$0.0000026

Total Economic Cost : \$0.0000447

Recurring Cost Summary

Tennessee
D.1.1 - Common Transport - Per MOU

10/14/00

	Volume Sensitive		Volume Insensitive	
	Direct Cost	Shared Cost	Direct Cost	Shared Cost
Recurring Cost Devel. Sheets Cols L, N, & O	\$0.0000509	\$0.0000031	\$0.0000086	\$0.0000008
Total Cost	\$0.0000509	\$0.0000031	\$0.0000086	\$0.0000008
Gross Receipts Tax Factor		X		X
Cost (Including Gross Receipts Tax)		\$0.0000540		\$0.0000093
Common Cost Factor		X		X
Economic Cost		\$0.0000573		\$0.0000099
Total Economic Cost : \$0.0000672				

Recurring Cost Summary

Tennessee D.1.2 - Common Transport - Facilities Termination Per MOU

10/14/00

	Volume Sensitive			Volume Insensitive		
	Direct Cost	Shared Cost	TELRIC	Direct Cost	Shared Cost	TELRIC
Recurring Cost Devel. Sheets Cols L, N, & O	\$0.0001848	\$0.0000190	\$0.0002038			\$0.0000000
Total Cost	\$0.0001848	\$0.0000190	\$0.0002038	\$0.0000000		\$0.0000000
Gross Receipts Tax Factor		X	1.0030		X	1.0030
Cost (including Gross Receipts Tax)			\$0.0002045			\$0.0000000
Common Cost Factor		X	1.0578		X	1.0578
Economic Cost			\$0.0002163			\$0.0000000

Total Economic Cost : \$0.0002163

CERTIFICATE OF SERVICE

I hereby certify that on October 20, 2000, a copy of the foregoing document was served on the parties of record, via U.S. Mail, addressed as follows:

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